

## Message Text

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11

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-03 PRS-01 USIA-15 AGR-20 ABF-01

RSR-01 /192 W

----- 128827

R 030850Z AUG 73 ZDK  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 5811  
INFO AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY CANBERRA  
AMEMBASSY THE HAGUE  
AMEMBASSY LONDON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY STOCKHOLM  
USEC MISSION BRUSSELS  
USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: TOKYO FOREX MARKET DEVELOPMENTS -- JUL 30 THRU AUG 3

1. DOLLAR IN SPOT MARKET WAS WEAKER FIRST FOUR DAYS OF THIS  
WEEK IN REACTION TO SUBSIDENCE OF STRONG DEMAND FOR DOLLARS  
EVIDENT DURING PREVIOUS TWO WEEKS. RATE THEN TURNED STRONGER  
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AGAIN ON FRI, AUG 3, (VOLUME \$110 MIL) DUE TO MODERATELY HEAVY

DEMAND FOR DOLLARS FOR IMPORT PAYMENTS. REPRESENTATIVE RATE ON FRI WAS Y265.00, UP Y1.30 FROM MON. TRANSACTIONS DURING THE FIVE-DAY PERIOD WERE IN THE RANGE OF Y263.00 TO Y 265.05 PER DOLLAR. VOLUME IN THE SPOT MARKET WAS CONSIDERABLY LIGHTER THIS WEEK, AVERAGING \$66 MIL A DAY. TOTAL WEEKLY VOLUME WAS APPROX \$333 MIL. BOJ OFFICIAL REPORTS CENTRAL BANK SALES OF DOLLARS DURING WEEK AMOUNT-INT TO ONLY APPROX \$50 MIL, MOST DONE ON FRI, AUG 3. OUTLOOK FOR AUG IS FOR RELATIVE CALM AND INACTIVE MARKET.

2. FORWARD DOLLAR RATES DIPPED SOMEWHAT DURING MID-WEEK BUT RECOVERED TO NEAR MON LEVELS BY END OF WEEK. THREE-MONTH FORWARD (NOV DELIVERY) CLOSED AUG 3 AT Y254.50, DOWN Y.70 FROM MON'S CLOSE. SIX-MONTH FORWARD (FEB DELIVERY) CLOSED WEEK AT Y248.40, DOWN Y1.05 FROM MON'S CLOSE. END OF WEEK RATE FOR THREE-MONTH FORWARD REPRESENTED DISCOUNT OF 12.15 PERCENT WHILE THAT FOR SIX-MONTH FORWARD REPRESENTED DISCOUNT OF 10.94 PERCENT. TOTAL VOLUME IN THE FORWARD MARKET WAS MODERATE AT \$301 MIL, WHILE TOTAL VOLUME IN THE SWAP MARKET REGISTERED \$247 MIL.

3. MARKETS NO LONGER BEING INFLUENCED BY DOLLAR DEMAND TO REPAY MOF FOUR-MONTH DEPOSITS, SINCE SMALL AND MEDIUM SIZED EXPORTERS CEASED TO APPLY FOR OFFICIAL FORWARD EXCHANGE COVER IN APR, MAY AND JUNE. HOWEVER, WHEN COST OF COVER IN FOREX MARKET ROSE BEGINNING IN LATE JUNE, EXPORTERS SWITCHED TO CHEAPER COVER AVAILABLE UNDER MOF SCHEME (SEE TOKYO 1998 NOTAL). OFFICIALS INDICATE HEAVY DEMAND FOR MOF COVER IN JUL AND SUBSTANTIAL AMOUNTS OF DOLLARS DEPOSITED WITH FOREX BANKS DURING MONTH. BEGINNING IN NOV, I.E. FOUR MONTHS HENCE, BANKS WILL HAVE TO PURCHASE DOLLARS ON FOREX MARKET TO REPAY MATURING MOF DEPOSITS. AGAIN, THIS LIKELY TO HAVE SHARP REACTION ON MARKET BECAUSE, WHILE DEPOSIT IS FOR TERM OF FOUR MONTHS, EXPORT RECEIPTS SPREAD OUT OVER BROADER TIME PERIOD. RECEIPTS PROBABLY ACCRUE SHORTLY AFTER GOODS CLEAR JAPANESE CUSTOMS, WHICH CAN BE AS SOON AS A FEW WEEKS AFTER OFFICIAL FORWARD COVER HAS BEEN GRANTED.

4. RUMOR CONTINUING TO CIRCULATE THAT BOJ LIKELY TO LIMITED OFFICIAL USE

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EFFECT ADDITIONAL INCREASE IN OFFICIAL DISCOUNT RATE, PERHAPS AS SOON AS END OF NEXT WEEK. SUCH AN INCREASE WOULD REPRESENT FOURTH HIKE IN OFFICIAL RATE THIS YEAR. RATE NOW STANDS AT 6.0 PERCENT (SET JUL 2, 73). SOURCES CLOSE TO CENTRAL BANK PREDICTING NEW INCREASE OF 1 PERCENT TO 7.0 PERCENT. SHOESMITH

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 AUG 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** hilburpw  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973TOKYO09955  
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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Line Count:** 113  
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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** hilburpw  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 06 SEP 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <06-Sep-2001 by hilburpw>; APPROVED <10-Sep-2001 by hilburpw>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** TOKYO FOREX MARKET DEVELOPMENTS -- JUL 30 THRU AUG 3  
**TAGS:** EFIN, JA  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005